



The ISA for LCEs

The International Standard on Auditing for Audits of
Financial Statements of Less Complex Entities

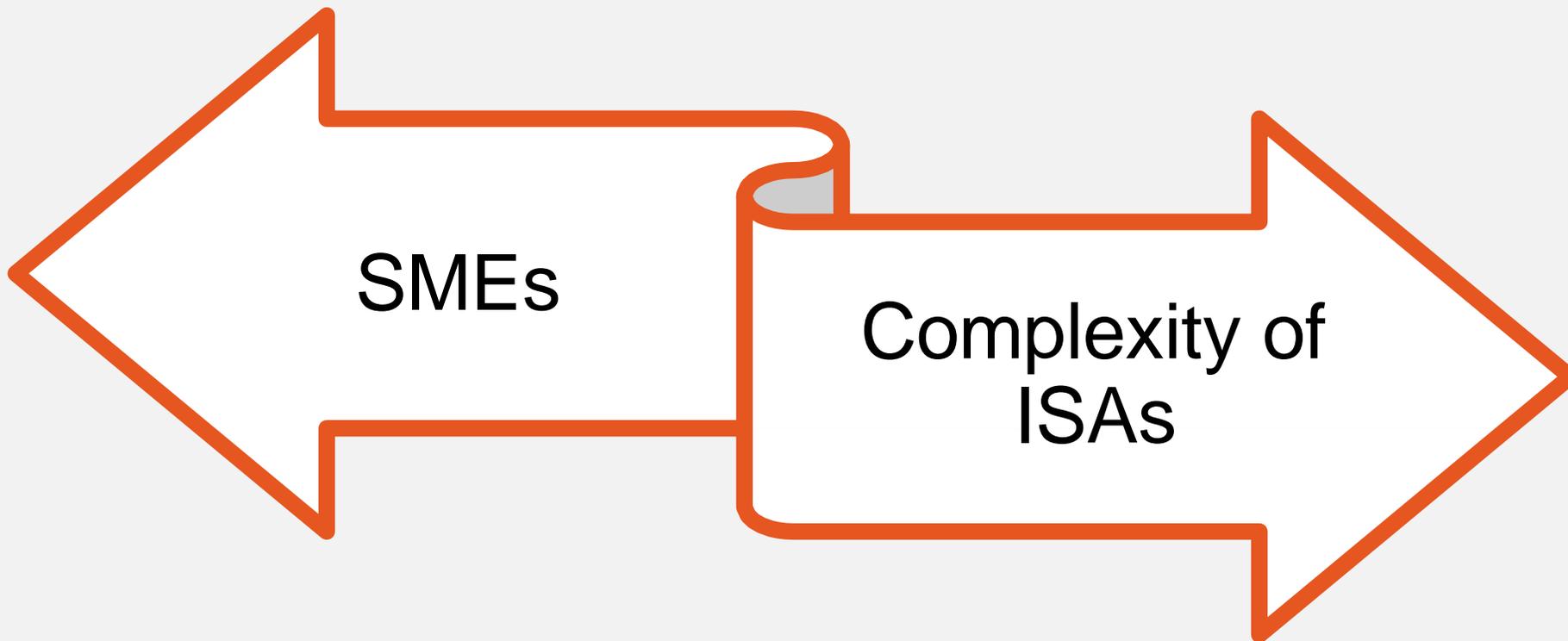
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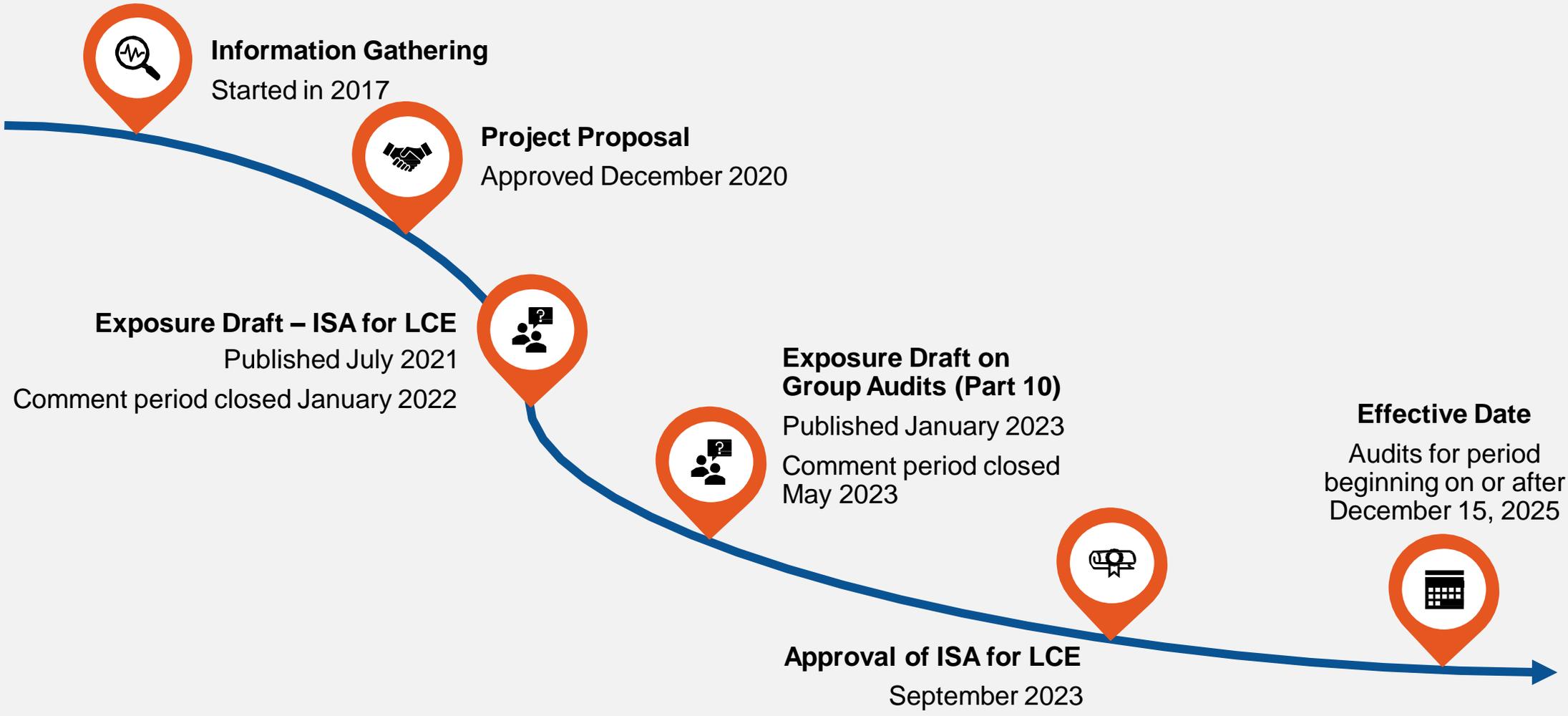


The need for a global solution





The IAASB's Journey





A Standard Focused on LCEs

Stand-alone, proportionate and tailored to the needs of an audit of an LCE:

- The standard provides a proportionate level of requirements tailored to the needs of less complex entities.
- This allows for a more efficient audit process without compromising the quality of the audit.

Risk-Based Approach:

- It maintains a risk-based approach, focusing on the risks that are material to the financial statements of less complex entities.
- This ensures that the audit is both effective and efficient.

Easier to navigate for practitioners supporting these engagements.

- The standard is structured in a way that is easier to navigate for practitioners who support less complex entities.
- This helps in reducing the learning curve and improving the application of the standard.

Consistent Application:

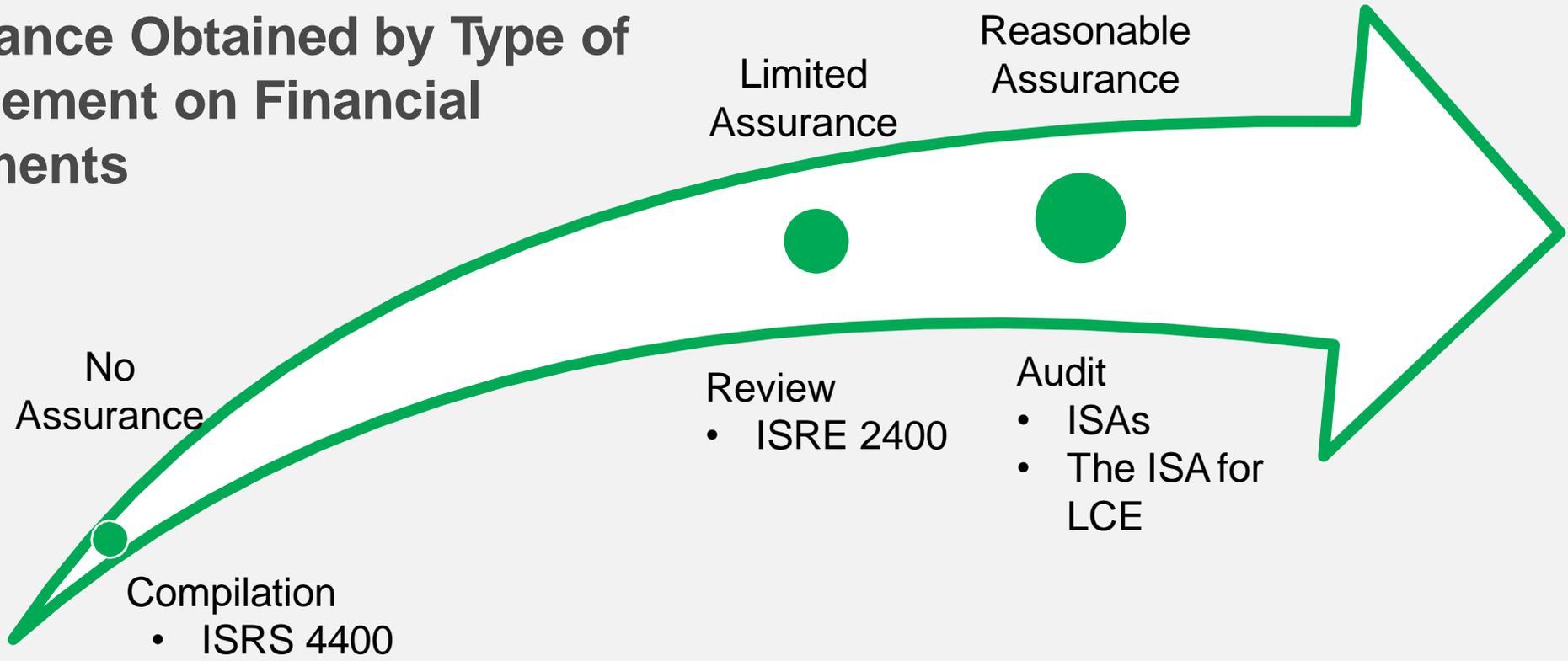
- By providing a standalone standard for less complex entities, ISA for LCE promotes consistent application of auditing standards, which enhances confidence in financial reporting and reduces the risk of jurisdictional divergence.

Recognizes the Importance of Smaller Businesses: ISA for LCE acknowledges the distinct needs of smaller businesses and their specific audit requirements. It provides guidance in the form of essential explanatory material tailored to these needs.



Reasonable Assurance

Assurance Obtained by Type of Engagement on Financial Statements





A Global Solution

Maintain confidence in financial reporting of LCEs

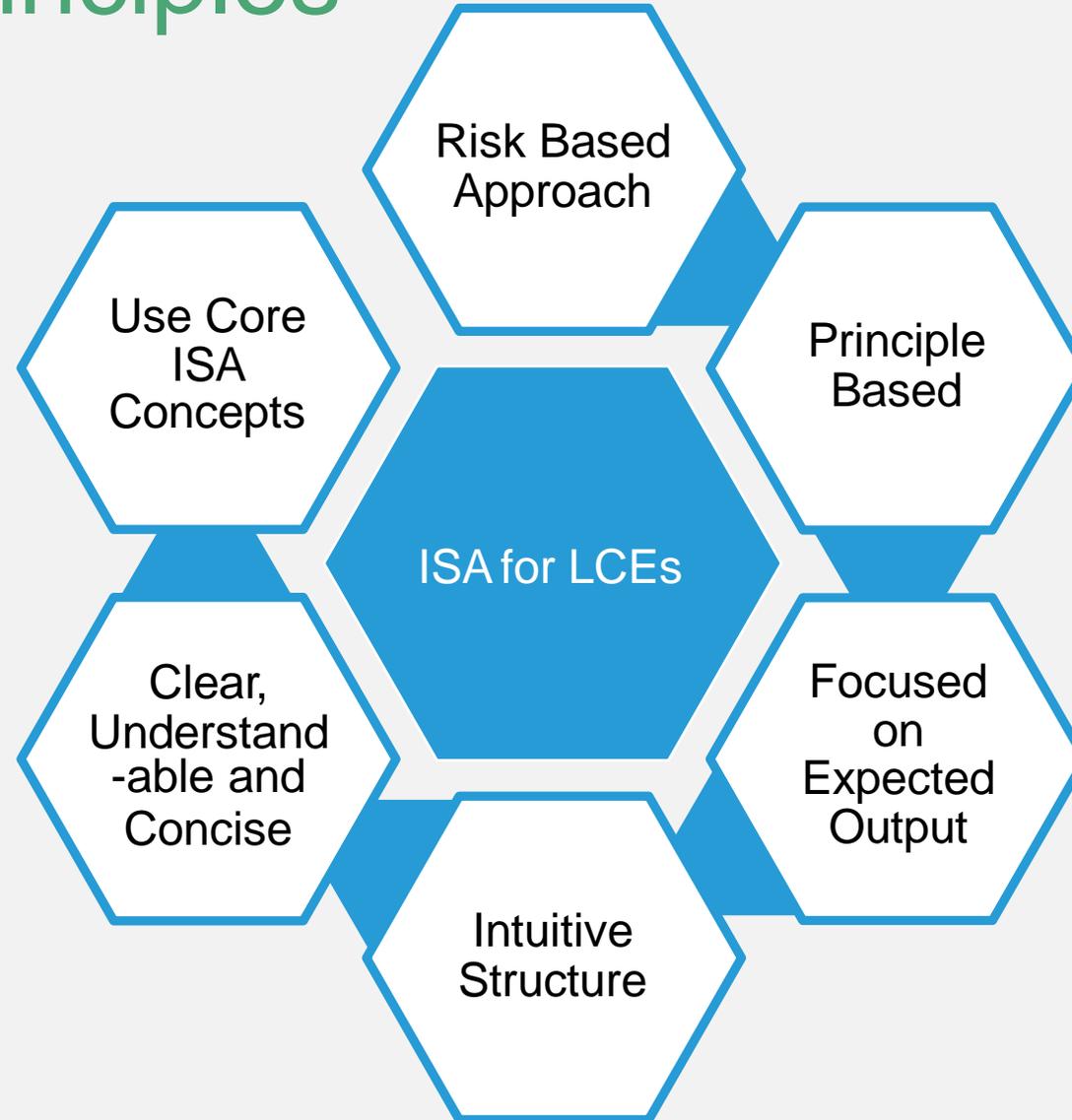


Promote consistent application of the auditing standards to audits of LCEs



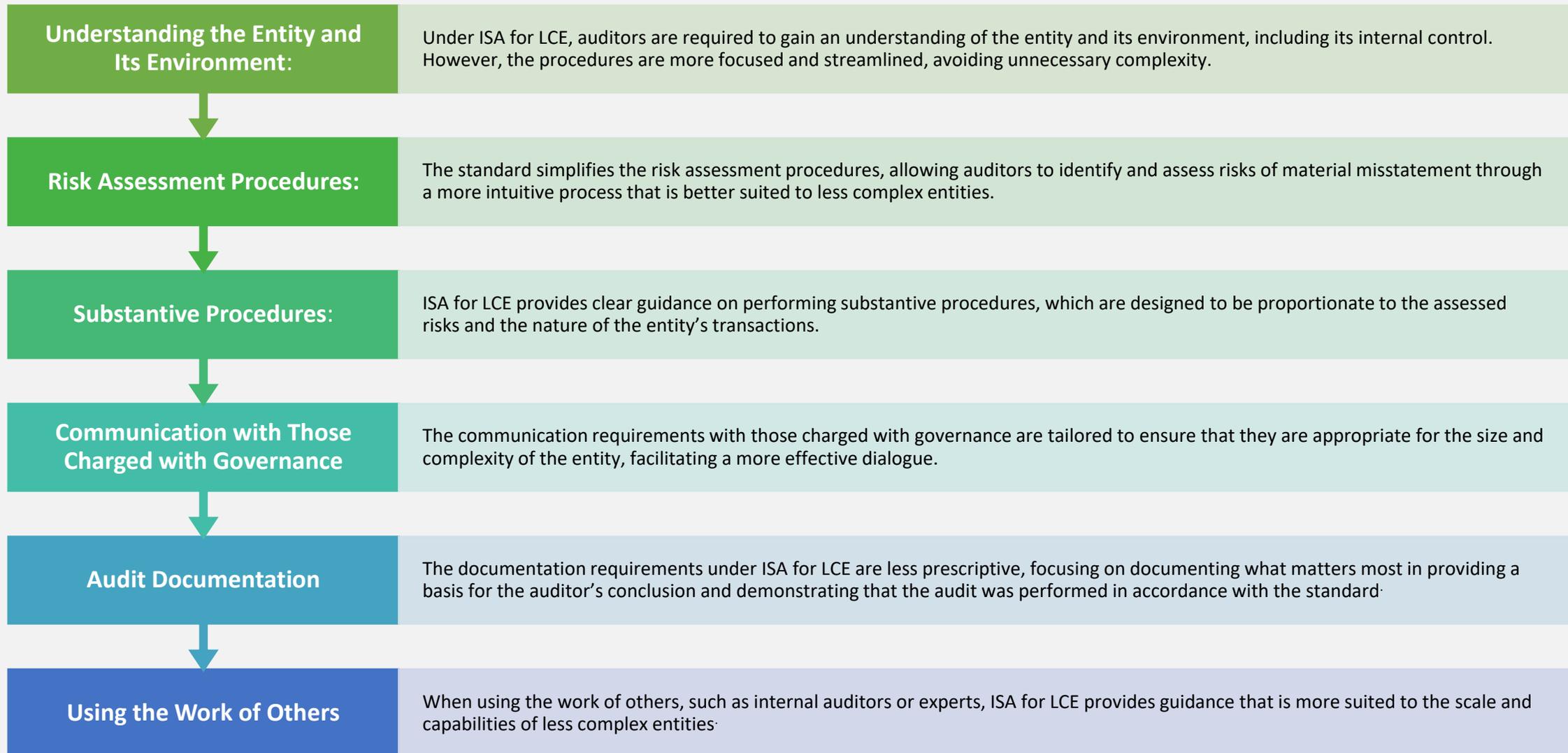


Design Principles





The ISA for LCE impacts specific audit procedures by simplifying and tailoring them to the needs of less complex entities





Authority



1. Specific Prohibitions

- Listed Entities
- Entities with public interest characteristics
- Otherwise prohibited by jurisdictions



2. Qualitative Characteristics

- Business activities and model
- Organization and ownership structure
- Nature of finance function
- Information technology
- Financial reporting framework and accounting estimates



3. Quantitative Thresholds

- As defined by jurisdictions

Group Audit Considerations

- Use of component auditors, except for limited Circumstances
- Group Structure
- Access to Information or People
- Consolidation Process



Responsibilities

Jurisdictions

- Allow or require use of ISA for LCE
- Modify entities with public interest characteristics
- Defining quantitative thresholds

Firms

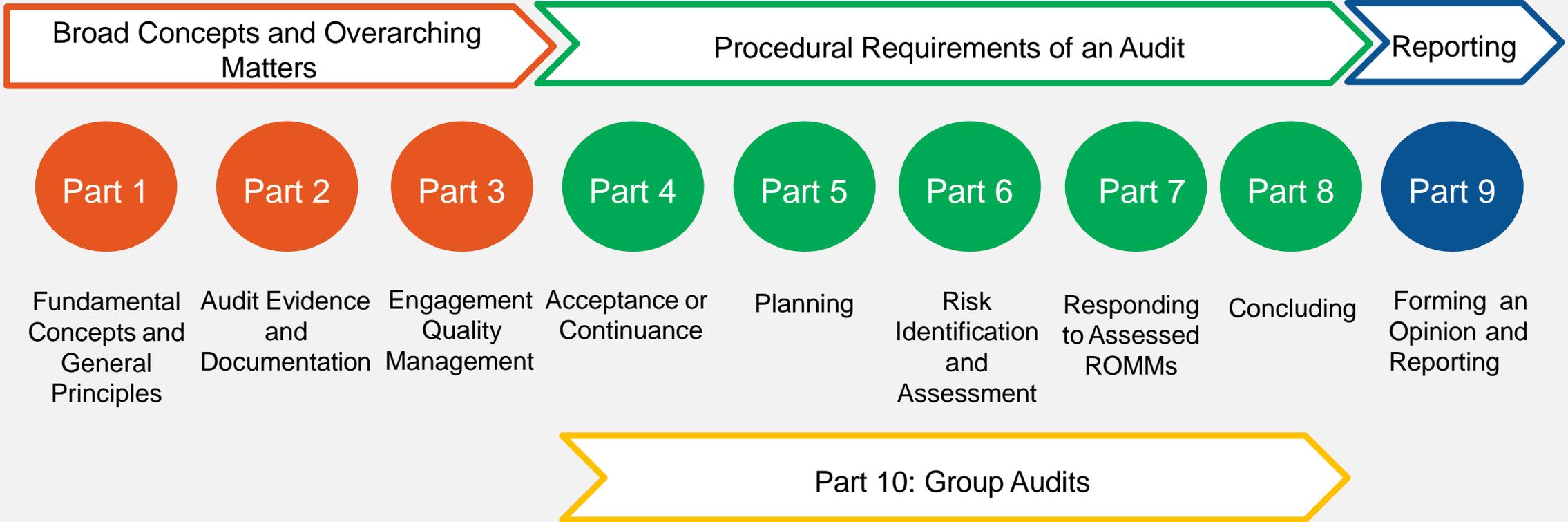
- Establish policies and procedures

Engagement Teams

- Evaluate against qualitative characteristics at client acceptance / continuance and throughout audit
- Stand back requirements



The Flow of the Standard





The Flow of the Standard

Broad Concepts and Overarching Matters

Part 1

Fundamental
Concepts and
General
Principles

Part 2

Audit Evidence
and
Documentation

Part 3

Engagement
Quality
Management

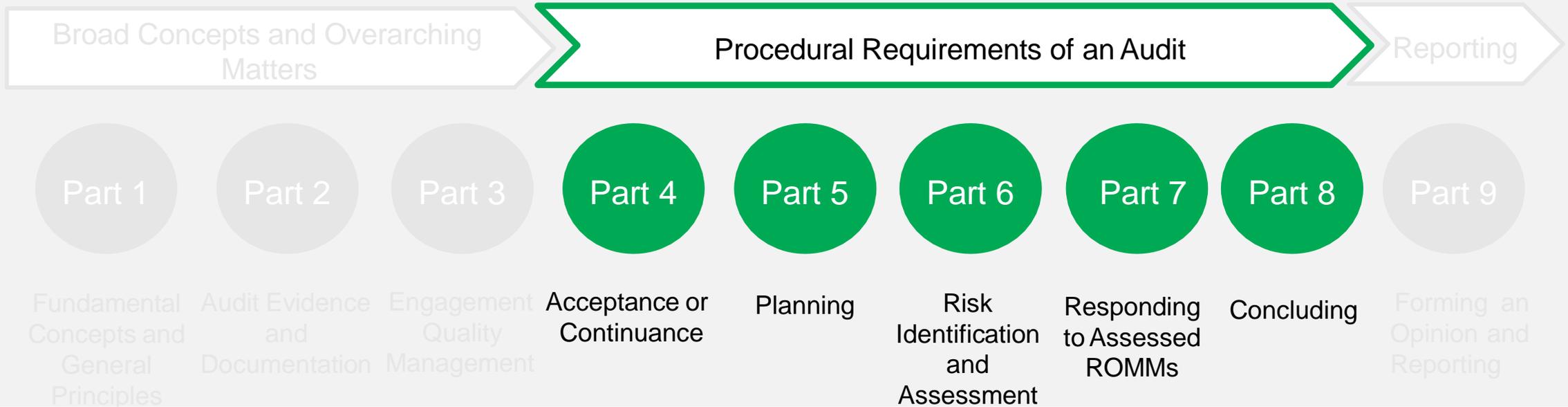
Part 4

Acceptance
Criteria

- Overall Objectives
- Overarching Requirements
 - Professional Judgment
 - Professional Skepticism
 - Fraud
 - Law or Regulation
 - Related Parties
- General Documentation & Communication Requirements
- Quality Management



The Flow of the Standard



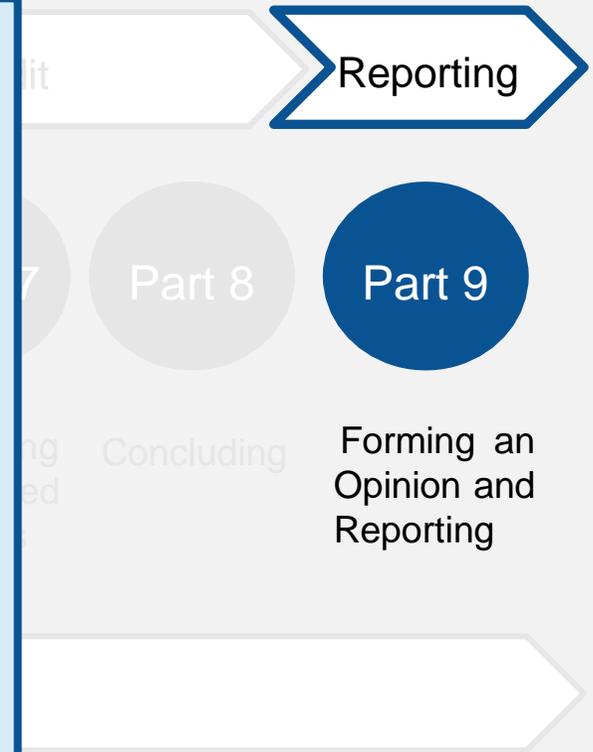
- Audit concepts are grouped based on the phase of the audit (e.g., Planning includes requirements around determining materiality, Concluding includes evaluation of subsequent events, etc.)
- Includes appendices to provide additional guidance



The Flow of the Standard

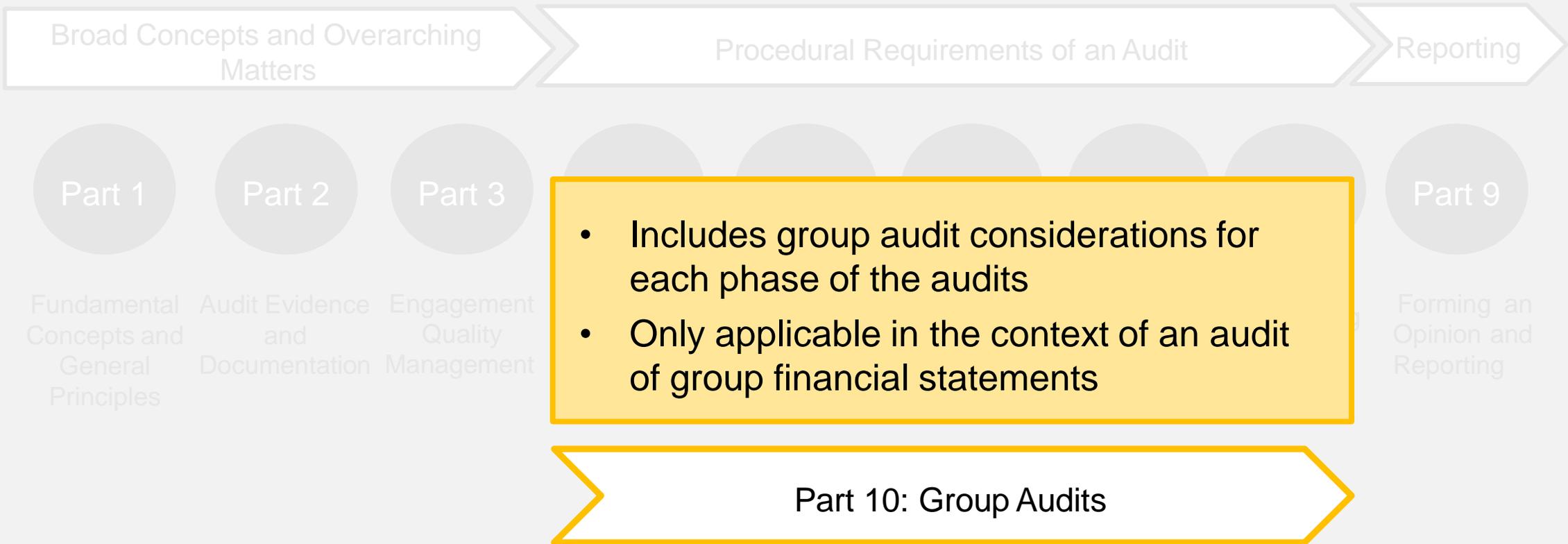
Broad Concepts and Overarching

- Specified content and format for unmodified auditor's report
- Departures not permitted except for compliance with law or regulation
- Use of tables to present requirements related to modifications and Other Matter / Emphasis of Matter paragraphs
- Also covers Other Information & Comparative Information
- Supplemental Guidance: Auditor Reporting
 - Modifications
 - Other reporting guidance
 - Illustrative reports





The Flow of the Standard





Layout

Introduction

- Summary of the content and scope of the Part

Objective

- Link the requirements of the Part and the overall objective of the audit

Essential Explanatory Material

- Limited guidance where essential to understanding or applying a requirement or a concept
- Does not impose a requirement or expand any requirement
- Located directly below the relevant requirement

IAASB Main Agenda (September 2023)

2. Audit Evidence and Documentation

Content of this Part

Part 2 sets out the requirements to be applied throughout the audit for:

- Audit evidence.
- Documentation. Within individual Parts there may also be additional specific documentation requirements.

Scope of this Part

The requirements in this Part apply throughout the audit engagement.

2.1. Objectives

2.1.1. The objectives of the auditor are to:

- Design and perform audit procedures in such a way as to enable the auditor to obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the auditor's opinion; and
- Prepare documentation that provides a sufficient and appropriate record of the basis for the auditor's report and provides evidence that the audit was planned and performed in accordance with the ISA for LCE and applicable law or regulation.

2.2. Sufficient Appropriate Audit Evidence

2.2.1. To obtain reasonable assurance, the auditor shall obtain sufficient appropriate audit evidence to reduce audit risk to an acceptably low level thereby enabling the auditor to draw reasonable conclusions on which to base the auditor's opinion.

2.2.2. The auditor shall design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence.

Sufficiency is the measure of the quantity of audit evidence. It is affected by the auditor's assessment of the risks of material misstatement (the higher the assessed risks, the more audit evidence is likely to be required) and also the quality of the audit evidence (the higher the quality, the less may be required). Obtaining more audit evidence, however, may not compensate if it is of poor quality.

Appropriateness is the measure of the quality of the audit evidence, that is its relevance and reliability in providing support for the conclusions on which the auditor's opinion is based.

Most of the auditor's work in forming the auditor's opinion consists of obtaining and evaluating audit evidence. Whether sufficient appropriate audit evidence has been obtained to reduce audit risk to an acceptably low level, and thereby enable the auditor to draw reasonable conclusions on which to base the auditor's opinion, is a matter of professional judgment.

Requirements

- Designed to obtain sufficient appropriate audit evidence
- Auditors must comply with all relevant requirements

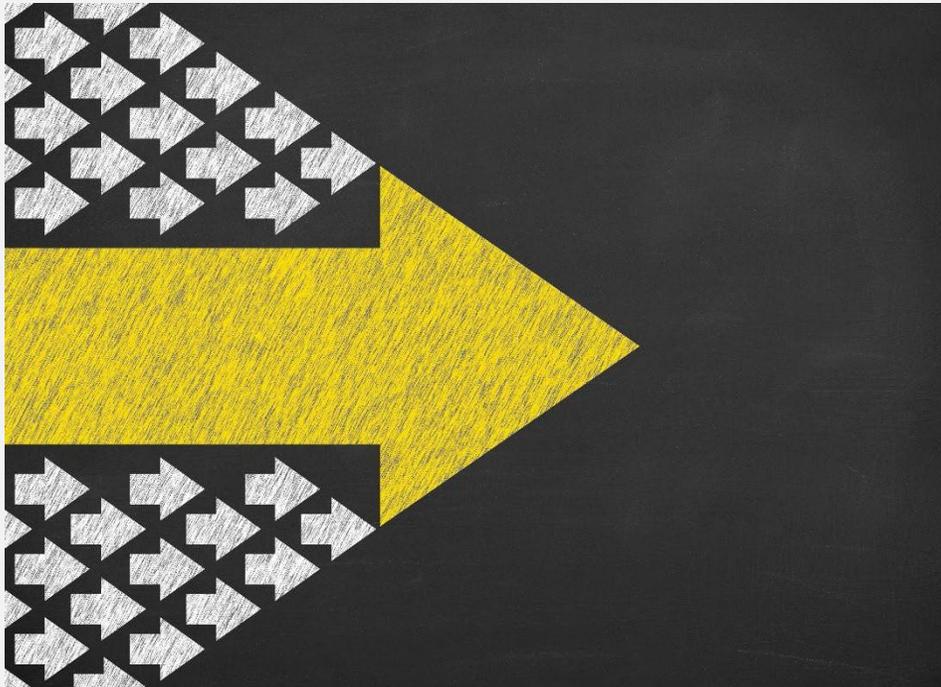


ISA for LCE vs ISAs

	ISA for LCEs	ISAs
Authority	Audits of LCEs	All audits
Structure	One standard, including 10 Parts (158 pages less update)	37 standards (900 pages and update regularly)
Requirement for matters or circumstances that would have deemed more complex	Not included	Included
Guidance	Adjoined to the requirement	Extensive and separate from the requirements
Examples	Focused on LCE	Wide range of entities



Adoption and Implementation



- ✓ First time implementation guide
- ✓ Supplemental Guide on Authority and Reporting
- ✓ Webinars
- ✓ Outreach
- ✓ Liaison with IFAC, NSSs and PAOs
- ✓ Factsheet on adoption
- ✓ FAQ

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